LIBERUM

UK Mid Cap

**UK | Real Estate | Real Estate | PHP LN | Market Cap £1.5bn |** 25 March 2019^

# HOLD
(from BUY)

**TP 130p** (from 125p)
Publication price 128.8p

# Primary Health Properties
# Accelerating scale benefits



**James Ashley**
+44 (0) 20 3100 2167
james.ashley@liberum.com

**David Brockton**
+44 (0) 20 3100 2243
david.brockton@liberum.com


The merger of PHP and MedicX creates a sector leading owner of primary healthcare properties. The addition of MedicX's best in class assets complements an already high quality portfolio and accelerates benefits of scale. We believe the enlarged group is well placed to profit from an increasing shift towards primary healthcare as well as growth opportunities in Ireland. However, a 16% rise in the share price YTD sees the shares fairly valued at 1.23x CY19 P/NAV with a 4.3% yield. We increase our target price from 125p to 130p, but downgrade to HOLD (from Buy).

## Consistent returns & merger

- FY18 NAV +4.4% to 105p, in line
- EPS flat & DPS +2.9%, in line
- £800m of assets acquired through MedicX merger

## Accelerating scale benefits

- Merger combines two high quality portfolios
- Accelerates operational efficiency
- Medium-term opportunity to reduce cost of capital

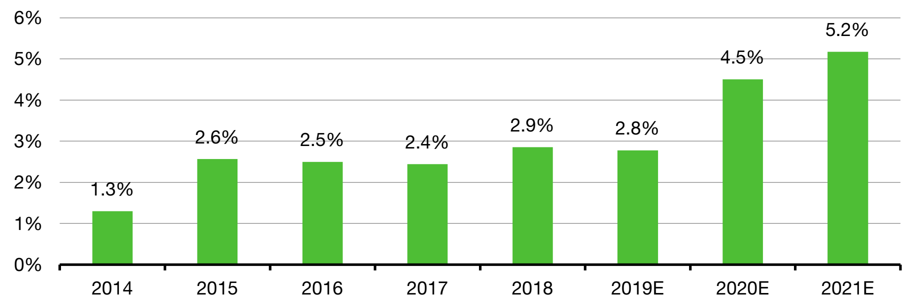
## Long-term low-risk growth

- Long-term structural demand for primary care (and GP properties)
- Long rental agreements (13yr avg) linked (and lagged) to inflation
- Low risk tenants (~90% govt.)

## Premium reflects lower risk

- Forecast 3yr 6% p.a. avg. total returns (NAV + dividends)
- CY19E P/NAV 1.23x, sector 0.87x
- CY19E DPS yield 4.3%
- TP increased from 125p to 130p

## Accelerating DPS growth

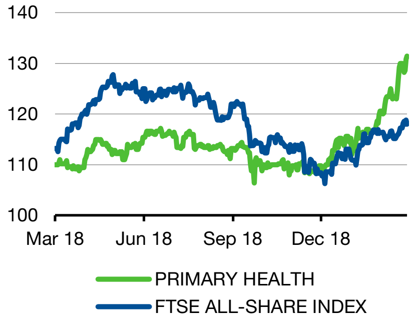



*Source: Liberum, Company.*

### Next events

| | |
|---|---|
| Q1 update | April 2019 |
| H119 results | August 2019 |

### Stock performance




### Summary Financials & Valuation (£m)

FY - December year end

| EV (FY) | 18A | 19E | 20E | 21E |
|---|---|---|---|---|
| Market cap | 1,460 | 1,460 | 1,460 | 1,460 |
| Net debt/(cash) | 677 | 1,188 | 1,277 | 1,363 |
| Pension & other adj. | 0 | 0 | 0 | 0 |
| EV | 2,136 | 2,648 | 2,736 | 2,822 |

| Valuation (CY) | 18A | 19E | 20E | 21E |
|---|---|---|---|---|
| P/NAV (x) | 1.23 | 1.23 | 1.21 | 1.21 |
| EV/EBITDA (x) | 32.1 | 25.5 | 22.7 | 21.8 |
| EV/EBIT (x) | 32.1 | 25.5 | 22.7 | 21.8 |
| P/E (x) | 24.8 | 22.1 | 21.1 | 19.6 |
| Div Yield (%) | 4.2 | 4.3 | 4.5 | 4.7 |
| FCF Yield (%) | 2.7 | 2.5 | 4.7 | 5.1 |

| Financials (FY) | 18A | 19E | 20E | 21E |
|---|---|---|---|---|
| Gross revenue | 79.6 | 118 | 136 | 145 |
| Adj EBITDA | 66.5 | 104 | 120 | 129 |
| Adj EBIT | 66.5 | 104 | 120 | 129 |
| EBIT margin (%) | 83.5 | 88.2 | 88.8 | 89.0 |
| Adj PBT | 36.8 | 61.6 | 69.3 | 74.8 |
| Adj EPS (p) | 5.2 | 5.8 | 6.1 | 6.6 |
| DPS (p) | 5.4 | 5.6 | 5.8 | 6.1 |
| NAV (p) | 105.1 | 104.3 | 106.2 | 106.2 |

| Leverage (FY) | 18A | 19E | 20E | 21E |
|---|---|---|---|---|
| Net debt/(cash) | 677 | 1,188 | 1,277 | 1,363 |
| LTV (%) | 45.2 | 49.4 | 50.7 | 52.2 |
| Interest cover (x) | 2.2 | 2.5 | 2.4 | 2.4 |

*Source: Liberum, Bloomberg*

# Company dashboard

### What it does

PHP is a REIT focused on the UK & Irish primary healthcare sector. The group invests in healthcare real estate and works alongside GP's, the NHS and associated healthcare business (e.g. pharmacies and NHS Trusts) to develop and manage purpose built healthcare facilities. Properties are generally leased to government on long-term direct or indirect leases.

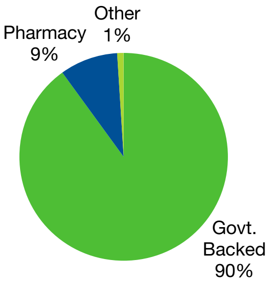
### Bull case

- Structural requirement for investment in primary care
- Unsuitable quality of existing GP premises
- Expansion into Ireland
- Land & cost inflation provides basis for rental growth
- 13 year average unexpired lease length
- Rent roll backed by NHS & Irish HSE
- Accelerated scale efficiencies from MedicX merger

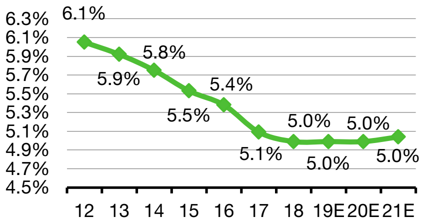
### Bear case

- Sustained period of sub-inflationary rental growth
- Delays in new development approvals
- External fee structure reduces operating leverage
- Irish expansion risk (FX, tenant covenant)

### Rent roll breakdown (post-merger)




### Equivalent yield




### Key Sensitivities

| Driver | Change | Impact on NAV |
|---|---|---|
| Yield shift | +/- 10bp | +/- 4.0% |
| ERV growth | +/- 1% | +/- 0.7% |

### How the target price is generated

We use a return on equity analysis to inform our increased target price of 130p from 125p, detailed at the end of the note.

### Peer group valuation

| Name | Price | Mkt Cap | Rec. | Target | P/NAV (x) | | P/E (x) | | Div Yield (%) | | Div Cover (x) | | EV/EBIT (x) | | FCFe Yield (%) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (£) | (£m) | | (£) | CY 19 | CY 20 | CY 19 | CY 20 | CY 19 | CY 20 | CY 19 | CY 20 | CY 19 | CY 20 | CY 19 | CY 20 |
| Assura | 0.57 | 1,367 | HOLD | 0.66 | 1.06 | 1.04 | 19.7 | 18.5 | 4.9 | 5.0 | 1.0 | 1.1 | 23.2 | 22.6 | 5.1 | 5.4 |
| Big Yellow | 9.76 | 1,627 | HOLD | 9.00 | 1.42 | 1.39 | 22.3 | 20.9 | 3.6 | 3.8 | 1.3 | 1.3 | 24.0 | 22.6 | 4.7 | 5.1 |
| British Land | 5.90 | 5,606 | HOLD | 5.85 | 0.70 | 0.72 | 18.0 | 17.7 | 5.4 | 5.5 | 1.0 | 1.0 | 23.4 | 23.3 | 3.7 | 3.7 |
| CapCo | 2.44 | 2,078 | HOLD | 3.00 | 0.75 | 0.73 | n.a. | n.a. | 0.6 | 0.6 | 0.6 | 1.0 | 102.2 | 79.1 | 1.0 | 1.3 |
| CLS Holdings* | 2.47 | 1,004 | BUY | 3.00 | 0.78 | 0.75 | 18.3 | 17.7 | 2.9 | 3.0 | 1.9 | 1.9 | 22.5 | 21.9 | 5.1 | 5.3 |
| Derwent London | 31.70 | 3,536 | HOLD | 31.00 | 0.83 | 0.83 | 30.6 | 26.7 | 2.3 | 2.5 | 1.4 | 1.5 | 33.6 | 30.0 | 2.9 | 3.5 |
| Great Portland Estates | 7.51 | 2,044 | HOLD | 7.05 | 0.86 | 0.86 | 44.4 | 43.3 | 1.7 | 1.9 | 1.3 | 1.2 | 39.3 | 38.7 | 2.1 | 2.1 |
| Hammerson | 3.41 | 2,609 | HOLD | 3.90 | 0.50 | 0.49 | 12.4 | 11.8 | 7.6 | 7.6 | 1.1 | 1.1 | 25.5 | 22.2 | 3.3 | 3.3 |
| Hansteen | 0.93 | 383 | HOLD | 1.05 | 0.88 | 0.84 | 18.1 | 17.7 | 5.1 | 5.1 | 1.1 | 1.1 | 18.2 | 17.4 | 6.9 | 7.1 |
| Harworth* | 1.30 | 418 | BUY | 1.70 | 0.82 | 0.76 | 36.0 | 35.5 | 0.8 | 0.8 | 3.6 | 3.3 | 29.5 | 29.3 | 2.0 | 1.3 |
| Intu | 1.05 | 1,424 | SELL | 1.00 | 0.40 | 0.42 | 9.0 | 9.0 | 0.0 | 0.0 | n.a. | n.a. | 13.5 | 13.6 | 9.3 | 10.0 |
| Land Securities | 9.13 | 6,773 | BUY | 10.00 | 0.70 | 0.71 | 15.5 | 15.5 | 5.3 | 5.4 | 1.2 | 1.2 | 19.9 | 20.1 | 6.3 | 6.2 |
| LondonMetric | 1.95 | 1,365 | HOLD | 1.80 | 1.09 | 1.08 | 21.9 | 21.4 | 4.3 | 4.4 | 1.1 | 1.1 | 25.7 | 25.4 | 3.9 | 4.0 |
| NewRiver* | 2.18 | 663 | BUY | 3.00 | 0.86 | 0.87 | 10.2 | 9.7 | 10.1 | 10.3 | 1.0 | 1.0 | 14.6 | 14.2 | 9.4 | 9.7 |
| **PHP** | **1.29** | **1,460** | **HOLD** | **1.30** | **1.23** | **1.21** | **22.1** | **21.1** | **4.3** | **4.5** | **1.0** | **1.1** | **25.5** | **22.7** | **2.5** | **4.7** |
| Real Estate Investors* | 0.52 | 97 | BUY | 0.75 | 0.73 | 0.72 | 12.9 | 12.4 | 7.3 | 7.7 | 1.1 | 1.1 | 17.3 | 16.8 | 7.7 | 8.1 |
| Safestore | 5.90 | 1,239 | BUY | 6.50 | 1.40 | 1.31 | 20.8 | 19.2 | 2.9 | 3.2 | 1.7 | 1.7 | 20.4 | 18.8 | 5.3 | 5.8 |
| Segro | 6.61 | 7,171 | BUY | 7.50 | 0.96 | 0.92 | 28.4 | 26.2 | 3.0 | 3.1 | 1.2 | 1.2 | 31.2 | 29.5 | 3.3 | 3.6 |
| Shaftesbury* | 8.89 | 2,733 | HOLD | 10.50 | 0.88 | 0.85 | 48.4 | 44.5 | 2.0 | 2.1 | 1.0 | 1.0 | 39.8 | 38.0 | 2.0 | 2.1 |
| St Modwen | 4.05 | 901 | BUY | 4.65 | 0.81 | 0.76 | 24.1 | 17.9 | 2.1 | 2.8 | 2.0 | 2.0 | 18.6 | 14.1 | 8.0 | 10.0 |
| Town Centre Securities* | 2.13 | 113 | BUY | 3.00 | 0.61 | 0.59 | 17.8 | 17.0 | 5.6 | 5.6 | 1.0 | 1.0 | 22.6 | 23.7 | 3.8 | 3.6 |
| Tritax Big Box | 1.44 | 2,453 | HOLD | 1.55 | 0.93 | 0.90 | 21.7 | 20.3 | 4.8 | 4.9 | 1.0 | 1.0 | 27.4 | 25.7 | 4.7 | 5.1 |
| U+I* | 1.85 | 232 | BUY | 2.80 | 0.60 | 0.58 | 8.7 | 9.8 | 7.5 | 6.9 | 1.5 | 1.5 | 10.0 | 10.7 | 10.2 | 9.1 |
| Unite | 9.08 | 2,392 | HOLD | 9.50 | 1.00 | 0.95 | 21.9 | 20.8 | 4.0 | 4.2 | 1.1 | 1.2 | 22.9 | 21.6 | 4.4 | (0.8) |
| Workspace* | 9.87 | 1,780 | BUY | 12.25 | 0.88 | 0.86 | 22.6 | 20.2 | 3.6 | 4.0 | 1.2 | 1.2 | 24.1 | 22.1 | 4.6 | 5.2 |
| *Simple average* | | *2,059* | | | *0.87* | *0.85* | *21.9* | *20.6* | *4.1* | *4.2* | *1.3* | *1.3* | *27.0* | *25.0* | *4.9* | *5.0* |
| ***Weighted average*** | | | | | ***0.86*** | ***0.84*** | ***22.5*** | ***21.1*** | ***3.8*** | ***4.0*** | ***1.2*** | ***1.2*** | ***29.2*** | ***27.0*** | ***4.2*** | ***4.3*** |

*Source: Liberum, Bloomberg, Company. *Liberum corporate client*

# Low-risk long-term structural growth

**We expect PHP's portfolio to benefit from long-term steady structural growth, as a growing and ageing UK population combines with efforts to improve the efficiency and cost effectiveness of the NHS by expanding the scope of services provided by GPs. The merger combines two high quality portfolios and accelerates scale efficiencies.**

- **Rising structural demand for primary care** – There is growing structural demand for primary care (GP services), given an expanding and ageing population which has recurrent healthcare needs. National Health Service (NHS) budget constraints create additional pressure to deliver a wider range of services through GP practices.
- **Ageing estate in need of modernisation** – Demand for primary care properties is aided by restrictions on supply. Many GP practices are also increasingly too small to accommodate the rising volume or broadening scope of care services required. PHP focuses on larger, dominant and strategically important GP practices. Larger fit-for-purpose buildings allow greater patient, organisational and cost benefits to the healthcare system, reducing strain on A&E and the wider NHS.
- **Accelerated scale benefits** – The acquired MedicX portfolio provides significant opportunity to crystallise benefits of increased scale faster than would otherwise be achievable. Over the medium-term the enlarged group is also well positioned to benefit from a lower cost of capital. This should help accelerate dividend growth.
- **High quality and secure income stream** – PHP's focus on primary care properties results in high visibility over income due to long rental agreements (pro forma ~13yrs avg., with 20yr+ on new leases), which are largely backed by the NHS or Health Service Executive (HSE) in Ireland. ~30% of rents are also explicitly linked to fixed uplifts, RPI or CPI. Development activity is similarly low-risk given it is only undertaken when a GP pre-let has been agreed.
- **Slowly improving LFL growth, enhanced by acquisition** – We expect market LFL rental growth to improve as new developments provide evidence of recent land and build cost inflation, which provides the basis for open market rent reviews on the remaining ~70% of leases. In addition, acquisitions and forward funded developments should enhance growth and attract further scale benefits.
- **Ireland expansion opportunity** – PHP is now the only listed primary healthcare REIT to invest in Ireland and this provides an additional attractive market for growth. Ireland has similar favourable demand and supply dynamics to the UK and a low-risk, high-covenant income stream (largely backed by the HSE). In contrast to the UK, purchase yields in Ireland have seen less compression and hence represent higher returns.
- **High financial leverage supported by low risk income** – PHP's pro forma LTV stands at a relatively high 47%, but allows adequate headroom to a 60% limit and is supported by the low risk nature of the industry's rental income. Interest cover is 2.6x. We see further opportunity to reduce PHP's 3.9% average cost of debt as the enlarged group benefits from scale.

# Consistently strong returns in FY18

**FY18 figures were broadly in line with our forecasts with continued improvement in rental growth and yield compression aiding a 4.4% rise in EPRA NAV. Total returns through the year remained a strong 9.7% following a 2.9% increase in the dividend. The accretive deployment of capital as well as associated scale efficiencies of the MedicX merger provides a platform for further income growth.**

Key points from the figures:

- **EPRA NAV +4.4% –** EPRA NAV was +4.4% to 105.1p, in line with our forecast and aided by a +2.5% valuation gain and successful £115m in-year equity raise at a 7% premium to Dec 17 NAV.
- **EPRA EPS flat –** EPRA EPS remained flat 5.2p, in line with our forecast following the equity raise, lower LTV and selective asset purchases throughout the year.
- **+2.5% valuation gain driven by rental growth –** A +2.5% like for like property revaluation gain was driven by improving LfL rental growth of 1.8% (60%) and continued yield compression from 4.91% to 4.85% (40%).
- **Accretive capital deployment –** PHP acquired eight properties through the year for a total of £106.2m at an average lot size of £13.3m. Acquisitions weighted to Ireland and the use of forward funded developments ensured investments were accretive to net income.
- **DPS +2.9% –** As forecast DPS increased +2.9% to 5.4p. While declared dividend cover dropped below 100% following the equity raise, we expect full cover to be reached in the near term. On a paid basis the dividend remained fully covered.
- **Reduced financial leverage –** Following the £115m April fundraise LTV reduced from 52.9% to 44.8%, providing firepower to the group's historic average and 60% LTV limit. Average cost of debt reduced further through the year from 4.09% to 3.90% increasing interest cover to 2.6x (2.25x FY17)
- **Post-period end MedicX merger –** Post-period end PHP completed an all-share merger with MedicX. PHP issued 341m shares, valuing MedicX at 88.7p; a 14.3% premium to its undisturbed share price and an 8.5% premium to FY18 NAV. The merger combines two high quality portfolios and accelerates scale efficiencies.

# Forecast NAV -1% and EPS +4%

**We decrease our NAV estimates by ~1% and increase EPS by ~4% to reflect FY18 results and the earnings accretive all-share merger.**

**Figure 1: Summary forecast changes (£m)**

| | 2019E | | | 2020E | | | 2021E |
|---|---|---|---|---|---|---|---|
| | Old | New | Change | Old | New | Change | New |
| **Key assumptions** | | | | | | | |
| True equivalent yield | 5.0% | 5.0% | 0bp | 5.0% | 5.0% | 0bp | 5.0% |
| LFL rental growth | 1.7% | 1.7% | 0bp | 2.1% | 2.0% | -5bp | 2.2% |
| **Income statement** | | | | | | | |
| Gross Rental Income | 82.7 | 117.8 | +42.5% | 89.9 | 135.6 | +50.8% | 145.3 |
| *Growth (%)* | *6.6%* | *48.0%* | *+4137bp* | *8.7%* | *15.1%* | *+633bp* | *7.2%* |
| Net Operating Income | 81.2 | 114.6 | +41.1% | 88.3 | 131.8 | +49.3% | 141.1 |
| *NOI margin (%)* | *98.3%* | *97.3%* | *-100bp* | *98.2%* | *97.2%* | *-100bp* | *97.2%* |
| EBITDA | 72.1 | 104.0 | +44.3% | 78.7 | 120.3 | +52.9% | 129.4 |
| PBT, adj | 44.3 | 61.7 | +39.1% | 47.0 | 69.4 | +47.8% | 75.0 |
| **EPRA EPS (p)** | **5.6** | **5.8** | **+4.3%** | **5.9** | **6.1** | **+3.4%** | **6.6** |
| DPS (p) | 5.6 | 5.6 | 0.0% | 5.7 | 5.8 | +1.8% | 6.1 |
| **Other** | | | | | | | |
| EPRA NAV | 837.4 | 1,188.7 | +42.0% | 849.6 | 1,212.8 | +42.8% | 1,216.3 |
| Net (debt) / cash | (756.0) | (1,183.6) | +56.6% | (858.5) | (1,271.9) | +48.2% | (1,357.8) |
| **EPRA NAV (p)** | **105.5** | **104.7** | **-0.7%** | **106.8** | **106.6** | **-0.1%** | **106.7** |
| LTV (%) | 47.2% | 49.2% | +4.3% | 50.0% | 50.5% | +1.0% | 52.0% |

*Source: Liberum*

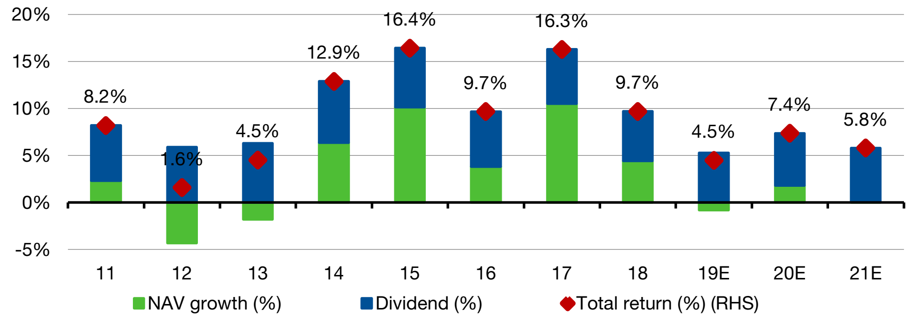
We downgrade NAV by ~1% to reflect a FY18 results, the MedicX merger and ~£25m of one-off merger related costs.

Our NAV estimates also factor a +1.7% annualised rental uplift in FY19E, an increase on the 1.4% achieved in FY18, which should be supported by comparable new build evidence. Cautiously we forecast yields to remain flat.

We increase our EPRA EPS forecasts +4% to reflect the accretive impact of acquiring MedicX. This is primarily driven by the addition of MedicX's substantial asset base at a low 0.225% management fee. Given accelerated earnings progression we raise our 2020 and 2021 dividend growth rate from ~3% to ~5% with full cover in both years.

On our updated forecasts we expect 6% average total returns over our three year forecast horizon. This remains attractive in comparison to the wider UK real estate sector, is low risk and could be enhanced by further capital growth.

**Figure 2: Total returns (NAV growth + dividends)**




*Source: Liberum, Company*

# High quality portfolio

**The addition of MedicX complements an already high quality portfolio with the youngest, largest and longest-leased primary healthcare estate. This provides a platform for long-term attractive returns.**

The all-share merger between PHP and MedicX completed on 14th March 2019. For each MedicX share, MedicX shareholders received 0.77 PHP shares, resulting in the issuance of 341m new PHP shares.

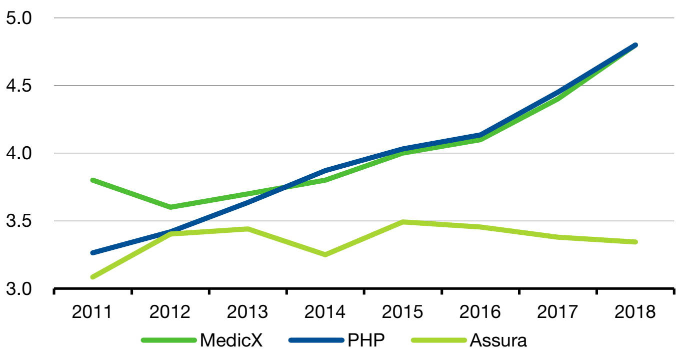
Based on PHP's 115.2p closing share price (a +9.6% premium to FY18 NAV) the merger valued MedicX shares at 88.7p or a £392.9m market cap; a 14.3% premium to its undisturbed share price and an 8.5% premium to FY18 NAV. The enlarged group now has a market cap of ~£1.5bn and a NAV of ~£1.2bn.

MedicX's portfolio of 166 primary care properties includes 161 across the UK and 5 in Ireland.

Similar to PHP the group focuses on larger lot sizes, in order to align its portfolio with the rising volumes and broadening scope of services increasingly provided by GPs. Larger fit-for-purpose buildings allow greater patient, organisational and cost benefits to the healthcare system, reducing strain on A&E and the wider NHS. We believe this strategy will drive superior value in the long term.

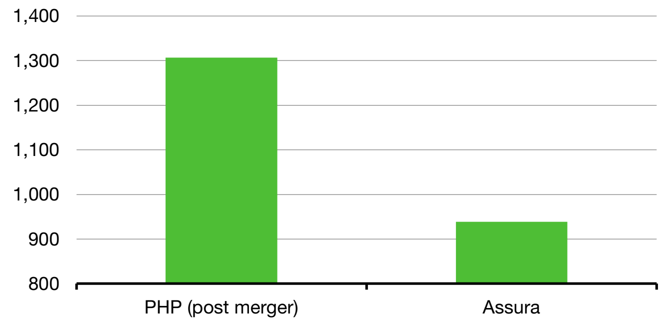
The combined portfolio has 479 assets (13 in Ireland) with an average lot size of £4.8m and ~1,300sqm. This has gradually increased over time and compares favourably to Assura from both a capital value and space perspective.

**Figure 3: Average value per asset vs. Assura (£m)**




*Source: Company data*

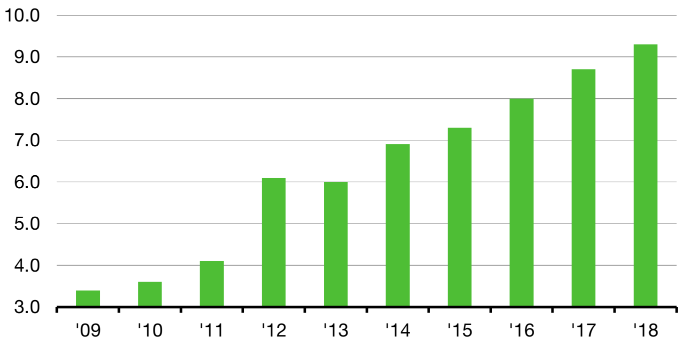
**Figure 4: Average size per asset vs. Assura (sqm)**




*Source: Company data, Liberum estimates*

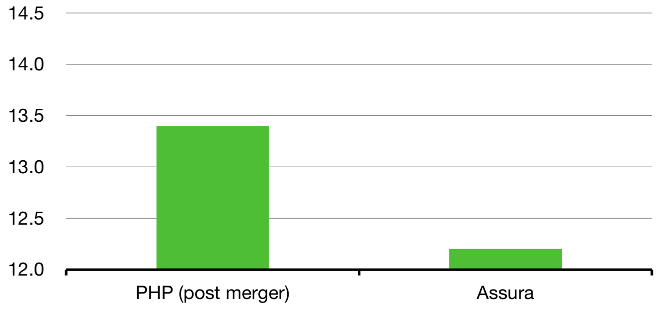
The acquired portfolio is also relatively modern, making it more aligned to today's primary care requirements, with an average age per asset of nine years. MedicX's portfolio will also increase PHP's average lease length to 13.4 years, again ahead of Assura.

**Figure 5: MedicX - average age of the portfolio (years)**




*Source: Company data*

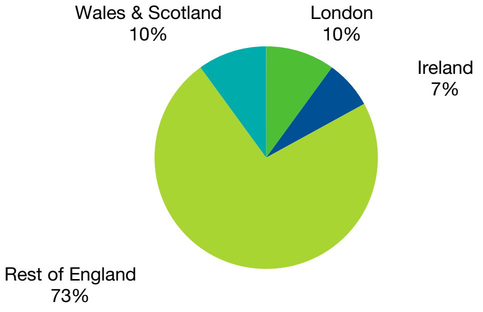
**Figure 6: Weighted average lease length vs. Assura (years)**




*Source: Company data*

Given a greater London concentration, the MedicX merger will also serve to proportionally increase exposure to this region. We see this as a positive given rents have lagged build cost and land inflation most significantly in the capital. As a result any new build evidence is likely to provide strong evidence for accelerated rental growth.

**Figure 7: MedicX portfolio by location (%)**




*Source: Company data*

In this respect, the recent outturn of a MedicX arbitration in London is positive and provides rental evidence for the nearby area. The determination concluded that the rent due for the group's major asset in Clapham should have increased by 35% from March 2015, equating to a compounded 10.5% p.a. increase over the 3 year rent review period.

The opportunity for capital recycling through FY19 provides a way to further improve these metrics.

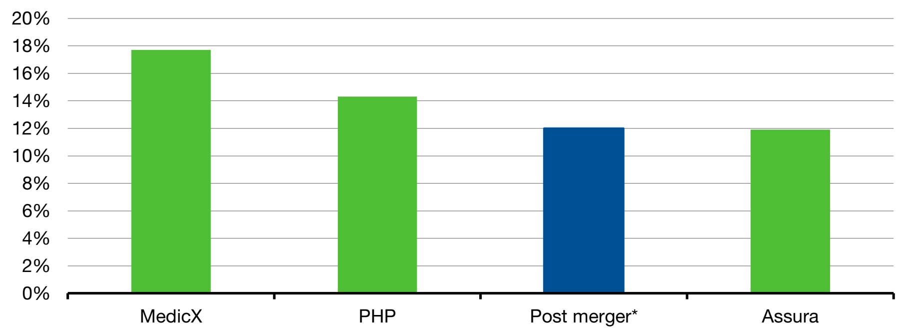
# Accelerating scale benefits

**The MedicX portfolio also provides opportunity to crystallise benefits of increased scale faster than would otherwise be achievable. Over the medium term the enlarged group is also well positioned to benefit from a lower cost of capital.**

The combined portfolio will immediately benefit from lower investment management fees. Nexus will charge a flat fee of 0.225% on MedicX assets over the first five years; compared with MedicX's average of 0.43% in FY18. This is expected to result in ~£2.5m of cost savings p.a.

In addition PHP are targeting a further £1m of operational efficiencies within the enlarged group. PHP has a strong record of achieving one of the lowest EPRA cost ratios in the sector. Following a full year of integration management expect the EPRA cost ratio to fall to 12%, in line with Assura.

**Figure 8: Last reported EPRA cost ratio**

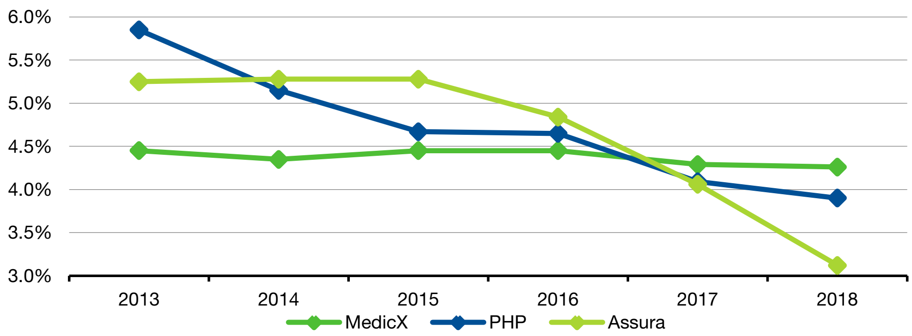



*Source: Liberum, Company data. *Company estimate*

In addition to operating leverage we see opportunity for PHP to improve financing terms and flexibility over the long-term.

While cost of debt has steadily fallen across the listed sub-sector, Assura has demonstrated that scale provides the greatest means to meaningfully lower financing costs. The addition of the MedicX portfolio should allow the group to add cheaper debt and greater flexibility.

**Figure 9: Avg. cost of debt**



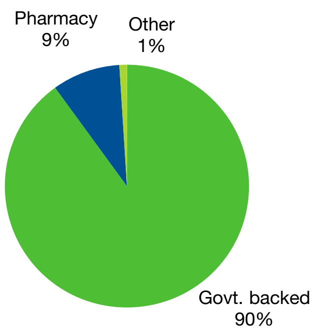

*Source: Liberum, Company data*

# Improving organic growth

**We expect PHP's LFL rental growth to steadily improve as an increase in developments provides evidence to raise open market rents and recent inflationary pressure supports indexed rents.**

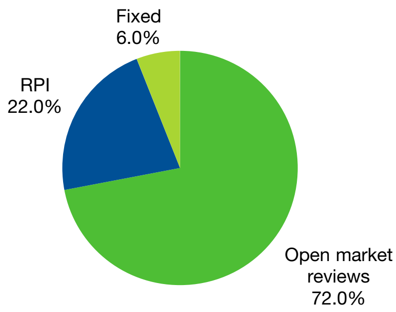
Primary care provides a strong covenant with almost 90% of annual rent government backed (with GPs reimbursed by the NHS in the UK and the HSE in the Republic of Ireland).

**Figure 10: Security of income by tenant type**




*Source: Company data*

**Figure 11: Rent reviews profile**




*Source: Company data*

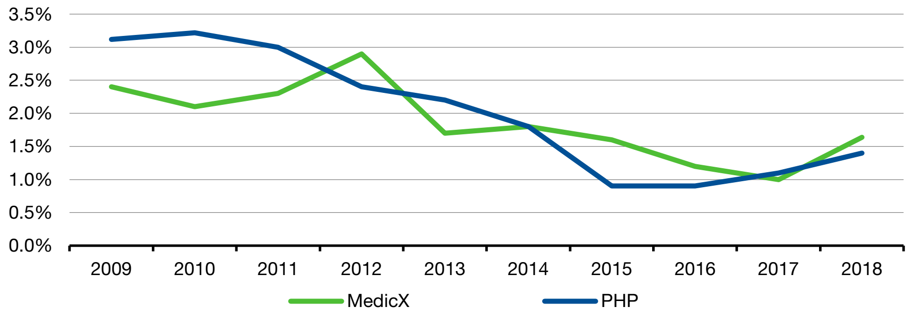
While rent reviews are being increasingly aligned to inflationary indices, the majority are still decided by open market reviews.

Open market rent reviews are agreed with District Valuers, which rely heavily on rents set on new developments. New development rents reflect both the costs of development (land and building) and an agreed developer margin.

However, a hiatus in new development approvals, following the 2013 NHS reorganisation into Clinical Commissioning Groups, resulted in a period of fewer developments and hence softer open market reviews, given limited market evidence of the significant construction and land cost inflation witnessed elsewhere in the Real Estate sector. This is evident in PHP and MedicX's recent rental growth.

The outlook is now much more promising for growth: recent inflationary pressure will mechanistically drive indexed rents higher. There is also growing evidence of new developments, which should support improvements in organic rental growth in future.

**Figure 12: Rent reviews over time**



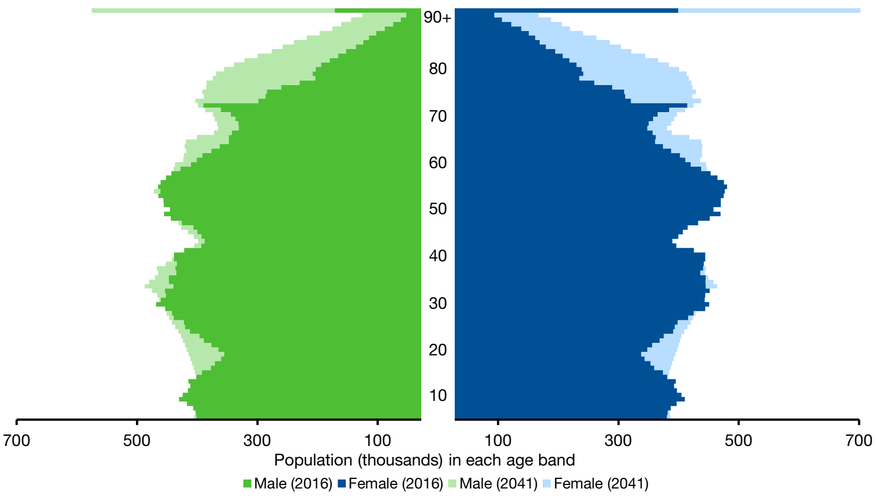

*Source: Company data*

# Rising long-term structural demand

**Underpinning PHP's long-term prospects is a positive secular growth backdrop, with demand for primary care rising due to an expanding and ageing population, and NHS budget constraints adding pressure to deliver a wider range of services through GP practices.**

Demand for primary care is principally influenced by age and health. 18% of the UK population is over the age of 65, but this is forecast to rise to 24% by 2041. In addition to an ageing population, there is a growing number of people living with complex long-term conditions which require greater GP resources.

**Figure 13: UK population by age**

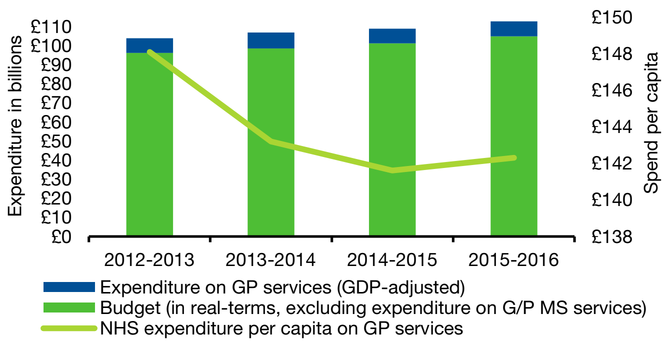



*Source: Liberum, ONS Female 90+= 847,000*

Medical advances, developments in preventative health and reductions in social care initiatives have also contributed to the increasing trend away from hospitals and towards care in the community - for which primary care is important.

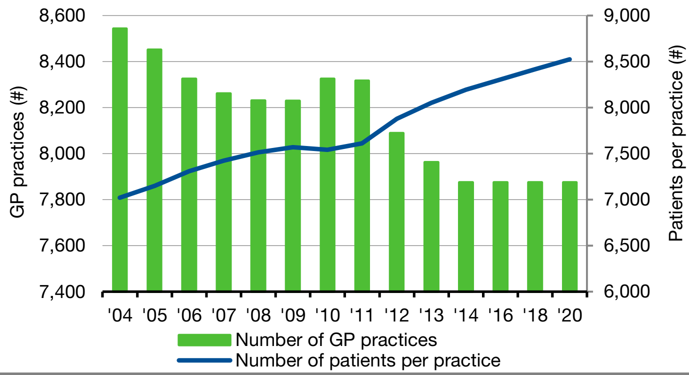
Despite this, the NHS has cut the share of funding for primary care and grown the number of hospital specialists three times faster than GPs. Funding for general practice has declined by 1.6% in real-terms since 2012-13, despite a real-term rise in the NHS budget of 8% over the same period. This has left the current estate unfit for purpose, with only one quarter of GP practices occupying modern purpose-built premises.

**Figure 14: Funding allocations in GP services**




*Source: Public Expenditure, Statistical Analyses, HM Treasury, 2016; Department of Health Annual Report and Accounts, Department of Health, 2013, 2014 and 2016; Deloitte Centre for Health Solutions research and analysis*

**Figure 15: UK primary care estate by practice number**




*Source: Liberum, Health & Social Care Information System*

Furthermore, research by the National Audit Office suggests significant financial, organisational and patient benefits to investment in the NHS GP practice estate. The cost of a typical visit to a general practice is estimated to be £21, whereas hospitals are paid £124 for an A&E visit. Given the extent of the cost saving, it is estimated that primary care investment would provide a net positive contribution to the NHS budget deficit.

Both the NHS England General Practice Five Year Forward View (5YFV) and the more recent 2017 Naylor Report acknowledged the significant investment required in the primary care estate in order to cater for population growth and facilitate primary care at scale. The reports suggest property should not just be improved or extended, but provide the flexibility to accommodate training, innovations and the use of technology.

Such requirements favour modern, larger and purpose-built practices which PHP has increasingly become weighted towards.

# Irish growth potential

**The Irish primary care market provides similar defensive income prospects to the UK market, but with higher returns and expansion potential. A more attractive yield spread, potential maturation of investor demand and CPI linked rent reviews all provide potential for PHP to sustain strong returns, with negligible additional risk.**

We believe the Irish market provides an additional attractive market for growth and differentiates PHP from Assura. Ireland has similar favourable demand and supply dynamics to the UK and a low-risk, high-covenant income stream (largely backed by the HSE).

We see a number of reasons why investment in Irish primary care could enhance the return profile of PHP. Based on MedicX's disclosed 6.2% true equivalent yield, income returns are significantly higher in Ireland than the UK; supporting the prospect for yield compression as investors take advantage of the attractive spread and the investment market matures.

Assuming UK assets are 100% government backed (realistically its ~90%) and adjusting a 6.2% equivalent yield on Irish assets for an average 70% HSE backed income suggests the defensive, 20+ year leases to non-government tenants commands a yield of 7.7%. To us this looks excessive and could, in due course, lead to further yield compression as the market expands and matures.

**Figure 16: Implied yield on non-government income**

| | | UK | Ireland | Comment |
|---|---|---|---|---|
| A | True equivalent yield | 4.99% | 6.22% | |
| B | Government backed income | 100% | 70% | Cautious assumption for the UK (actually ~90%) |
| C | Market implied government backed yield | 4.99% | 5.59% | Irish yield based on UK + Irish 10-year spread to Bunds |
| D | Non-government backed income | 0.0% | 30% | 1 - B |
| E | Implied yield on non-government income | n.a. | 7.69% | (A-(B*C)) / D |

*Source: Liberum, Company*

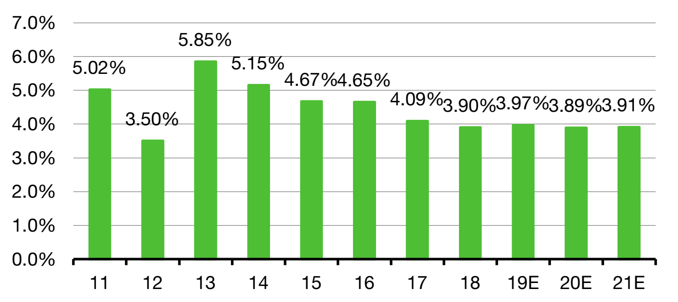
As well as higher yields, Irish rent reviews are aligned to Irish CPI (compounded every five years). We believe this is an attractive alternative to the district valuer led rent reviews seen in the UK, which have significantly lagged build cost inflation.

Following the merger, PHP has 13 Irish properties representing ~6% of the portfolio. We expect this to continue to rise towards the current 10% (self-imposed) ceiling with 73% of PHP's acquisition spend in 2018 weighted towards Irish assets. Within the Irish portfolio the group has two forward funded developments both expected to complete in FY19 as well as a healthy acquisition pipeline.

# Reduced financial leverage

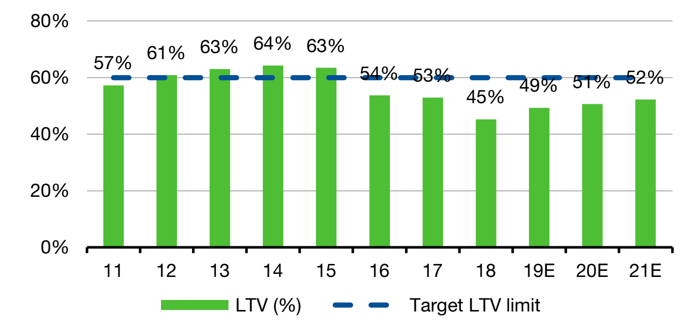
**PHP's pro forma LTV stands at 47%, which is lower than recent years and allows adequate headroom to a 60% limit, facilitating further net acquisition spend over our forecast period. It is also supported by the low risk nature of the industry's rental income**

**Figure 17: Weighted average cost of debt (%)**




*Source: Liberum, Company*

**Figure 18: LTV (%)**




*Source: Liberum, Company*

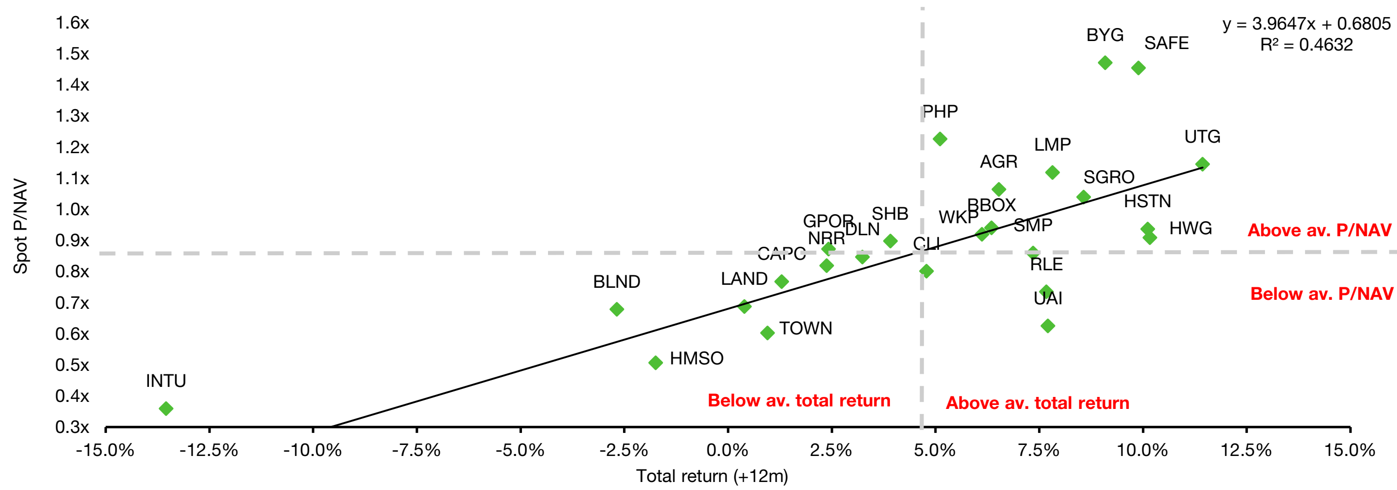
Following the £115m April fundraise LTV reduced from 52.9% to 44.8%, but the merger with MedicX increases this level back to 47%.

We forecast LTV to rise steadily through our forecast period as a result of continued net acquisition spend. Nevertheless we expect some rationalisation of the estate (we forecast ~£25m of disposals p.a.) as PHP takes advantage of strong investment demand and concentrates the larger portfolio to higher quality assets.

# 4.3% DPS yield supports valuation

**While PHP looks expensive relative to both our forecast total returns and the sector, we would expect the shares to retain their premium, given the low risk nature of the assets and rents. Against an uncertain economic backdrop, PHP's long term Government backed income, yielding 4.3%, provides attraction.**

**Figure 19: Spot P/NAV vs. Total return (12m fwd)**




*Source: Company data, Liberum*

**Figure 20: UK real estate valuation**

| Name | Price | Mkt Cap | Rec. | Target | P/NAV (x) | | P/E (x) | | Div Yield (%) | | Div Cover (x) | | EV/EBIT (x) | | FCFe Yield (%) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (£) | (£m) | | (£) | CY 19 | CY 20 | CY 19 | CY 20 | CY 19 | CY 20 | CY 19 | CY 20 | CY 19 | CY 20 | CY 19 | CY 20 |
| Assura | 0.57 | 1,367 | HOLD | 0.66 | 1.06 | 1.04 | 19.7 | 18.5 | 4.9 | 5.0 | 1.0 | 1.1 | 23.2 | 22.6 | 5.1 | 5.4 |
| Big Yellow | 9.76 | 1,627 | HOLD | 9.00 | 1.42 | 1.39 | 22.3 | 20.9 | 3.6 | 3.8 | 1.3 | 1.3 | 24.0 | 22.6 | 4.7 | 5.1 |
| British Land | 5.90 | 5,606 | HOLD | 5.85 | 0.70 | 0.72 | 18.0 | 17.7 | 5.4 | 5.5 | 1.0 | 1.0 | 23.4 | 23.3 | 3.7 | 3.7 |
| CapCo | 2.44 | 2,078 | HOLD | 3.00 | 0.75 | 0.73 | n.a. | n.a. | 0.6 | 0.6 | 0.6 | 1.0 | 102.2 | 79.1 | 1.0 | 1.3 |
| CLS Holdings* | 2.47 | 1,004 | BUY | 3.00 | 0.78 | 0.75 | 18.3 | 17.7 | 2.9 | 3.0 | 1.9 | 1.9 | 22.5 | 21.9 | 5.1 | 5.3 |
| Derwent London | 31.70 | 3,536 | HOLD | 31.00 | 0.83 | 0.83 | 30.6 | 26.7 | 2.3 | 2.5 | 1.4 | 1.5 | 33.6 | 30.0 | 2.9 | 3.5 |
| Great Portland Estates | 7.51 | 2,044 | HOLD | 7.05 | 0.86 | 0.86 | 44.4 | 43.3 | 1.7 | 1.9 | 1.3 | 1.2 | 39.3 | 38.7 | 2.1 | 2.1 |
| Hammerson | 3.41 | 2,609 | HOLD | 3.90 | 0.50 | 0.49 | 12.4 | 11.8 | 7.6 | 7.6 | 1.1 | 1.1 | 25.5 | 22.2 | 3.3 | 3.3 |
| Hansteen | 0.93 | 383 | HOLD | 1.05 | 0.88 | 0.84 | 18.1 | 17.7 | 5.1 | 5.1 | 1.1 | 1.1 | 18.2 | 17.4 | 6.9 | 7.1 |
| Harworth* | 1.30 | 418 | BUY | 1.70 | 0.82 | 0.76 | 36.0 | 35.5 | 0.8 | 0.8 | 3.6 | 3.3 | 29.5 | 29.3 | 2.0 | 1.3 |
| Intu | 1.05 | 1,424 | SELL | 1.00 | 0.40 | 0.42 | 9.0 | 9.0 | 0.0 | 0.0 | n.a. | n.a. | 13.5 | 13.6 | 9.3 | 10.0 |
| Land Securities | 9.13 | 6,773 | BUY | 10.00 | 0.70 | 0.71 | 15.5 | 15.5 | 5.3 | 5.4 | 1.2 | 1.2 | 19.9 | 20.1 | 6.3 | 6.2 |
| LondonMetric | 1.95 | 1,365 | HOLD | 1.80 | 1.09 | 1.08 | 21.9 | 21.4 | 4.3 | 4.4 | 1.1 | 1.1 | 25.7 | 25.4 | 3.9 | 4.0 |
| NewRiver* | 2.18 | 663 | BUY | 3.00 | 0.86 | 0.87 | 10.2 | 9.7 | 10.1 | 10.3 | 1.0 | 1.0 | 14.6 | 14.2 | 9.4 | 9.7 |
| **PHP** | **1.29** | **1,460** | **HOLD** | **1.30** | **1.23** | **1.21** | **22.1** | **21.1** | **4.3** | **4.5** | **1.0** | **1.1** | **25.5** | **22.7** | **2.5** | **4.7** |
| Real Estate Investors* | 0.52 | 97 | BUY | 0.75 | 0.73 | 0.72 | 12.9 | 12.4 | 7.3 | 7.7 | 1.1 | 1.1 | 17.3 | 16.8 | 7.7 | 8.1 |
| Safestore | 5.90 | 1,239 | BUY | 6.50 | 1.40 | 1.31 | 20.8 | 19.2 | 2.9 | 3.2 | 1.7 | 1.7 | 20.4 | 18.8 | 5.3 | 5.8 |
| Segro | 6.61 | 7,171 | BUY | 7.50 | 0.96 | 0.92 | 28.4 | 26.2 | 3.0 | 3.1 | 1.2 | 1.2 | 31.2 | 29.5 | 3.3 | 3.6 |
| Shaftesbury* | 8.89 | 2,733 | HOLD | 10.50 | 0.88 | 0.85 | 48.4 | 44.5 | 2.0 | 2.1 | 1.0 | 1.0 | 39.8 | 38.0 | 2.0 | 2.1 |
| St Modwen | 4.05 | 901 | BUY | 4.65 | 0.81 | 0.76 | 24.1 | 17.9 | 2.1 | 2.8 | 2.0 | 2.0 | 18.6 | 14.1 | 8.0 | 10.0 |
| Town Centre Securities* | 2.13 | 113 | BUY | 3.00 | 0.61 | 0.59 | 17.8 | 17.0 | 5.6 | 5.6 | 1.0 | 1.0 | 22.6 | 23.7 | 3.8 | 3.6 |
| Tritax Big Box | 1.44 | 2,453 | HOLD | 1.55 | 0.93 | 0.90 | 21.7 | 20.3 | 4.8 | 4.9 | 1.0 | 1.0 | 27.4 | 25.7 | 4.7 | 5.1 |
| U+I* | 1.85 | 232 | BUY | 2.80 | 0.60 | 0.58 | 8.7 | 9.8 | 7.5 | 6.9 | 1.5 | 1.5 | 10.0 | 10.7 | 10.2 | 9.1 |
| Unite | 9.08 | 2,392 | HOLD | 9.50 | 1.00 | 0.95 | 21.9 | 20.8 | 4.0 | 4.2 | 1.1 | 1.2 | 22.9 | 21.6 | 4.4 | (0.8) |
| Workspace* | 9.87 | 1,780 | BUY | 12.25 | 0.88 | 0.86 | 22.6 | 20.2 | 3.6 | 4.0 | 1.2 | 1.2 | 24.1 | 22.1 | 4.6 | 5.2 |
| *Simple average* | | *2,059* | | | *0.87* | *0.85* | *21.9* | *20.6* | *4.1* | *4.2* | *1.3* | *1.3* | *27.0* | *25.0* | *4.9* | *5.0* |
| ***Weighted average*** | | | | | ***0.86*** | ***0.84*** | ***22.5*** | ***21.1*** | ***3.8*** | ***4.0*** | ***1.2*** | ***1.2*** | ***29.2*** | ***27.0*** | ***4.2*** | ***4.3*** |

*Source: Liberum, Bloomberg, Company. *Liberum corporate client*

# Target price 125p to 130p

**We increase our target price from 125p to 130p, to reflect the benefits of the merger. 130p would equate to a CY19E P/NAV of 1.25x, a P/E of 22x and DPS yield of 4.3%.**

We use a return on equity analysis to inform our target price. We compare our forecasts against our view of sustainable return on equity (in the absence of yield shift), cost of equity and long-term growth.

We build up individual company cost of equity, using specific risk profiles over a risk-free rate, benchmarked against CAPM.

**Figure 21: Target Price assumptions**

| Income and capital return valuation | 2018 | 2019E | 2020E | 2021E | Target price |
|---|---|---|---|---|---|
| **DuPont RoE Analysis** | | | | | |
| Asset turnover (%) | 5.6% | 7.6% | 5.5% | 5.6% | |
| x Net EBIT margin (%) | 87.0% | 90.7% | 91.3% | 91.7% | |
| x Interest burden (%) | 55.3% | 59.2% | 57.6% | 57.8% | |
| x Tax & other burden (%) | 100.0% | 100.0% | 100.0% | 100.0% | |
| **= Income RoA (%)** | **2.7%** | **4.1%** | **2.9%** | **3.0%** | |
| x Financial leverage (%) | 218.4% | 185.9% | 203.8% | 209.1% | |
| **= Income RoE (%)** | **5.9%** | **7.6%** | **5.8%** | **6.2%** | **6.0%** |
| | | | | | |
| Capital RoE (exc. retained income %) | 4.6% | -1.0% | 1.5% | -0.4% | 1.0% |
| **Total return (%)** | **10.5%** | **6.6%** | **7.4%** | **5.8%** | **7.0%** |
| | | | | | |
| **Valuation Analysis** | | | | | |
| Total return (%) | 10.5% | 6.6% | 7.4% | 5.8% | 7.0% |
| Liberum cost of equity calculation | 5.4% | 5.4% | 5.4% | 5.4% | 5.4% |
| LT nominal growth (g) | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% |
| **Implied P/NAV (ROE-g/COE-g)** | | | | | 1.41 |
| | | | | | |
| EPRA NAV (p) | 105.1 | 104.3 | 106.2 | 106.2 | 107.8 |
| CY NAV (p) | 105.1 | 104.3 | 106.2 | 106.2 | 107.8 |
| **Implied FV price (p)** | | | | | 152 |
| Discount factor | | 1.00 | 0.95 | 0.90 | 0.85 |
| **NPV (p)** | | | | | **130** |
| | | | | | |
| CY P/NAV (x) | 1.24 | 1.25 | 1.22 | 1.22 | |
| CY P/E (x) | 25.0 | 22.3 | 21.3 | 19.8 | |
| CY EPS yield (%) | 4.0% | 4.5% | 4.7% | 5.1% | |
| CY DPS yield (%) | 4.2% | 4.3% | 4.5% | 4.7% | |
| | | | | | |
| **Upside/(downside)** | | | | | **0.8%** |

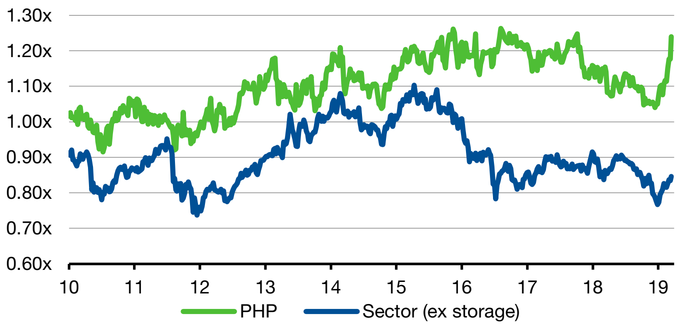
*Source: Liberum*

Our key assumptions are:

- 7.0% total returns: factoring continued mid-single digit income return, with low capital enhancement owing to a delay to development approvals and no further yield compression. PHP generates a higher equity return than Assura, given its higher financial leverage.
- 5.4% cost of equity: this rate is built up from a risk free rate, with Liberum assumptions for tenancy risk (GP surgeries low), obsolescence, operating costs, liquidity and financial risk (above Assura given its higher financial leverage and international exposure).

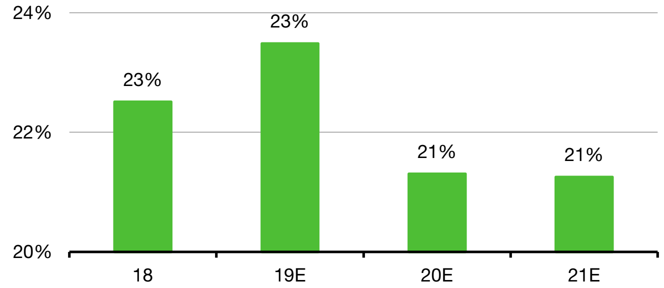
# Primary Health Properties - Liberum charts

**Figure 22: Spot P/NAV vs. Sector**



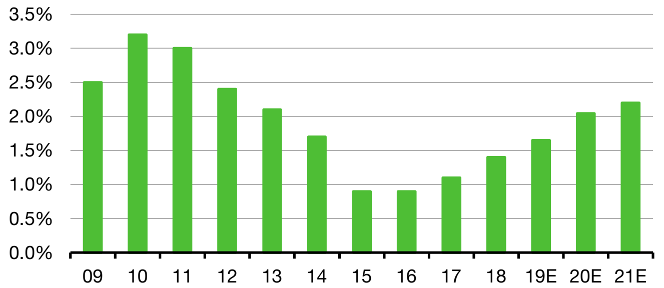

*Source: Liberum*

**Figure 23: Premium/(discount) to NAV**



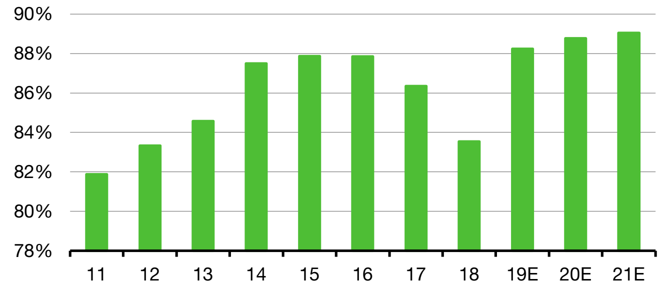

*Source: Liberum*

**Figure 24: Property rental growth**



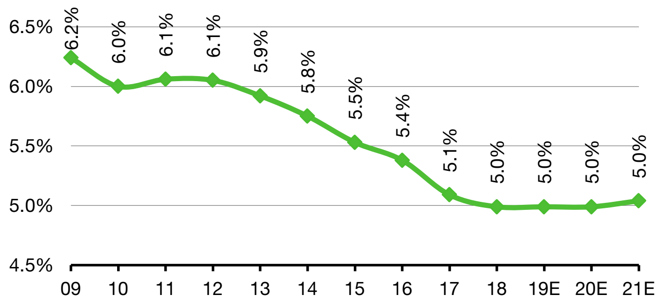

*Source: Liberum*

**Figure 25: EBITDA margin**



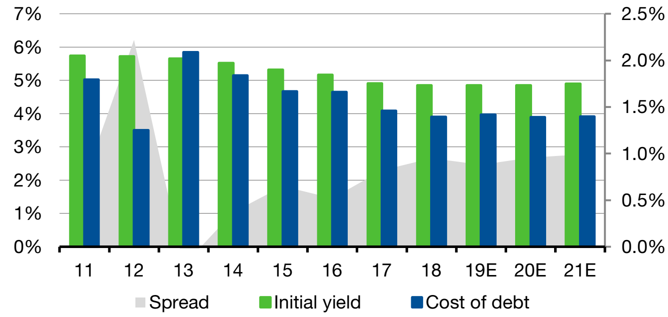

*Source: Liberum, Company*

**Figure 26: Equivalent yield progression**



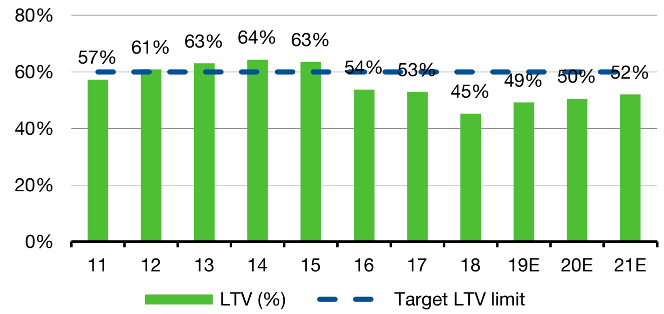

*Source: Liberum, Company*

**Figure 27: Spread NIY vs. cost of debt**



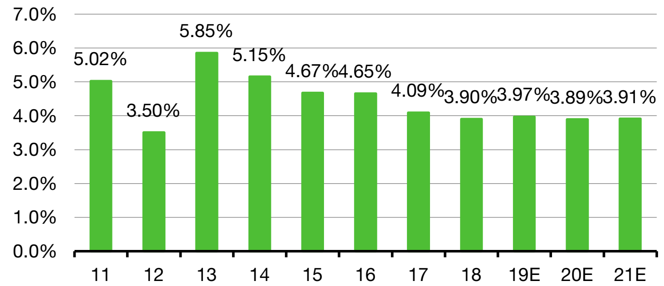

*Source: Liberum, Company*

**Figure 28: LTV**




*Source: Liberum, Company*

**Figure 29: Weighted average cost of debt**




*Source: Liberum, Company*

# Financial model

**Figure 30: Summary forecasts**

| Key Assumptions - Dec Y/E | 2014 | 2015 | 2016 | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|
| True equivalent yield | 5.8% | 5.5% | 5.4% | 5.1% | 5.0% | 5.0% | 5.0% | 5.0% |
| Average annualised uplift | 1.8% | 0.9% | 0.9% | 1.1% | 1.4% | 1.7% | 2.0% | 2.2% |
| | | | | | | | | |
| **Income Statement (£m) - prop consolidated** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019E** | **2020E** | **2021E** |
| Gross rental income | 60.0 | 63.1 | 67.4 | 72.5 | 79.6 | 117.8 | 135.6 | 145.3 |
| **Net operating income (NOI)** | **59.3** | **62.3** | **66.6** | **71.3** | **76.4** | **114.6** | **131.8** | **141.1** |
| % change | 42.5% | 5.1% | 6.9% | 7.1% | 7.2% | 50.0% | 15.0% | 7.1% |
| | | | | | | | | |
| **EBITDA** | **52.5** | **55.5** | **59.2** | **62.6** | **66.5** | **104.0** | **120.3** | **129.4** |
| % change | 47.8% | 5.7% | 6.8% | 5.7% | 6.2% | 56.3% | 15.8% | 7.5% |
| EBIT, adj | 52.5 | 55.5 | 59.2 | 62.6 | 66.5 | 104.0 | 120.3 | 129.4 |
| Net interest | (34.3) | (33.7) | (32.5) | (31.6) | (29.7) | (42.4) | (51.1) | (54.6) |
| PBT, adj | 18.2 | 21.7 | 26.7 | 31.0 | 36.8 | 61.6 | 69.3 | 74.8 |
| | | | | | | | | |
| **EPRA EPS (p)** | **4.1** | **4.9** | **4.8** | **5.2** | **5.2** | **5.8** | **6.1** | **6.6** |
| % change | 54.0% | 19.0% | -2.0% | 7.9% | 0.6% | 12.0% | 4.8% | 7.8% |
| | | | | | | | | |
| **DPS (p)** | **4.9** | **5.0** | **5.1** | **5.3** | **5.4** | **5.6** | **5.8** | **6.1** |
| % change | 1.3% | 2.6% | 2.5% | 2.4% | 2.9% | 2.8% | 4.5% | 5.2% |
| Dividend cover | 84% | 98% | 93% | 99% | 96% | 105% | 105% | 108% |
| | | | | | | | | |
| **Balance Sheet (£m) - prop consolidated** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019E** | **2020E** | **2021E** |
| Investment & development property | 1026 | 1101 | 1220 | 1362 | 1503 | 2414 | 2526 | 2616 |
| Net debt | (662) | (701) | (668) | (733) | (677) | (1188) | (1277) | (1363) |
| Other net assets | (55) | (55) | (53) | (42) | (38) | (59) | (59) | (59) |
| **Net assets** | **309** | **345** | **499** | **587** | **788** | **1167** | **1191** | **1194** |
| Adjustments | 45 | 46 | 46 | 37 | 21 | 17 | 17 | 17 |
| **EPRA NAV** | **355** | **392** | **545** | **624** | **809** | **1184** | **1208** | **1211** |
| | | | | | | | | |
| **EPRA NAV (p)** | **80** | **88** | **91** | **101** | **105** | **104** | **106** | **106** |
| % change | 6.4% | 10.1% | 3.8% | 10.5% | 4.4% | -0.8% | 1.8% | 0.0% |
| | | | | | | | | |
| Loan to value | 64% | 63% | 54% | 53% | 45% | 49% | 51% | 52% |
| Net debt / net assets | 187% | 179% | 123% | 117% | 84% | 100% | 106% | 112% |
| | | | | | | | | |
| **Cash Flow (£m)** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019E** | **2020E** | **2021E** |
| **Operating cash flow** | **46.6** | **57.1** | **56.8** | **60.1** | **68.5** | **79.5** | **120.8** | **129.9** |
| Net interest | (47.0) | (33.4) | (31.1) | (30.1) | (28.8) | (43.6) | (52.3) | (55.8) |
| Tax | (0.0) | 0.0 | (0.1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Free cash flow** | **(0.4)** | **23.8** | **25.7** | **30.0** | **39.7** | **35.9** | **68.6** | **74.1** |
| | | | | | | | | |
| Acquisitions & Disposals | (54.9) | (29.5) | (97.4) | (75.4) | (101.9) | (117.0) | (117.0) | (117.0) |
| Total dividends | (20.7) | (21.1) | (24.7) | (29.8) | (34.7) | (55.7) | (61.2) | (64.4) |
| Issue of equity | (0.0) | (0.1) | 145.2 | (0.1) | 111.0 | 26.6 | 0.0 | 0.0 |
| Change in borrowings | 80.9 | 20.0 | (31.8) | 82.3 | (5.6) | 530.4 | 88.5 | 86.0 |
| Other | (2.1) | (2.2) | (14.8) | (8.8) | (7.1) | (420.2) | 21.2 | 21.2 |
| **Net incr. (dec.) in cash** | **2.8** | **(9.2)** | **2.2** | **(1.8)** | **1.4** | **0.0** | **0.0** | **0.0** |
| | | | | | | | | |
| **Key Ratios** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019E** | **2020E** | **2021E** |
| NOI margin | 98.8% | 98.7% | 98.7% | 98.3% | 96.0% | 97.3% | 97.2% | 97.2% |
| EBITDA margin | 87.5% | 87.9% | 87.8% | 86.3% | 83.5% | 88.2% | 88.8% | 89.0% |
| EBITDA / Net Interest | 1.53x | 1.64x | 1.82x | 1.98x | 2.24x | 2.45x | 2.36x | 2.37x |
| ROE (EPRA EPS / opening NAV) | 5.5% | 6.1% | 5.4% | 5.7% | 5.2% | 5.5% | 5.8% | 6.2% |
| | | | | | | | | |
| LFL property revaluation | 2.8% | 3.8% | 1.7% | 5.0% | 2.5% | 0.5% | 0.6% | -0.3% |
| Total Return (NAV growth + DPS) | 12.9% | 16.4% | 9.7% | 16.3% | 9.7% | 4.5% | 7.4% | 5.8% |
| | | | | | | | | |
| **Valuation metrics** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019E** | **2020E** | **2021E** |
| P/NAV | 1.62x | 1.47x | 1.41x | 1.28x | 1.23x | 1.23x | 1.21x | 1.21x |
| EV/EBITDA | 23.5x | 23.0x | 23.5x | 24.1x | 23.9x | 24.5x | 22.8x | 21.9x |
| P/E (adj) | 31.4x | 26.4x | 26.9x | 25.0x | 24.8x | 22.1x | 21.1x | 19.6x |
| Dividend yield | 3.8% | 3.9% | 4.0% | 4.1% | 4.2% | 4.3% | 4.5% | 4.7% |
| Implied yield (NOI / EV) | 4.8% | 4.9% | 4.8% | 4.7% | 4.8% | 4.5% | 4.8% | 5.0% |

*Source: Liberum, Company*

## Disclaimer

This communication has been issued in the UK by Liberum Capital Limited (LCL) which is authorised and regulated by the Financial Conduct Authority ("FCA") and is a member of The London Stock Exchange PLC. The registered address of Liberum Capital Limited is Ropemaker Place, 25 Ropemaker Street, London EC2Y 9LY. Telephone: 020 3100 2000.

This report has been prepared by its author(s) as non-impartial research in relation to Company (the "Company"), as such that it is inappropriate to characterise it as independent investment research, as it has not been prepared in accordance with UK legal requirements designed to promote the independence of investment research. Therefore, even if it contains a research recommendation, it should be treated as a marketing communication.

The individuals who prepared this communication may be involved in providing other financial services to the company or companies referenced herein or to other companies who might be said to be competitors of the company or companies referenced herein. As a result, both Liberum Capital Limited ("LCL") and the individual employees who prepared this communication may have responsibilities that conflict with the interests of the persons who receive this communication and information may be known to LCL or persons connected with it which is not reflected in this communication.

LCL has put in place procedures, systems and controls to identify, to prevent (where this is possible) conflicts of interest and also has a conflicts management policy relating to its research and marketing communication activities, which is available on its website, www.liberum.com. In addition, a list of items which could create a conflict of interest and other material interests in relation to research material is set out on LCL's website (see "Disclosures" below).

This communication is provided for information purposes only and should not be regarded as an offer or solicitation to buy or sell any security or other financial instrument. This communication has no regard for the specific investment objectives, financial situation and needs of any specific person or entity. LCL and/or its officers, directors and employees may have or take positions in securities of companies mentioned in this communication (or in any related investment) and may from time to time dispose of any such positions and may also provide corporate finance or underwriting services for or relating to those companies, for which it is remunerated. LCL analysts, including the author of this report, receive compensation based on a number of factors including the quality of research, client feedback, firm profitability and normal competitive factors. This communication is based on materials and sources that are believed to be reliable; however, they are not independently verified and are not guaranteed as being accurate. All expressions of opinions, projections, forecasts and estimates constitute a judgment and are those of the author and the research department of LCL only, and should not be relied upon and are subject to change without notice. The content of this communication may have been disclosed to the company referenced herein prior to dissemination in order to verify factual accuracy, however the Company takes no responsibility for the accuracy or otherwise of any opinion, projection, forecast or estimate contained within this report.

While LCL endeavours to update its research reports from time to time it is under no obligation to do so. LCL shall not be liable for any direct or indirect damages, including lost profits, arising in any way from use of all or any of the information contained in this communication.

LCL may have issued other reports or communications that are inconsistent with and reach different conclusions from, the information contained in this communications. Those communications reflect the different assumptions, views and analytical methods of the individuals that prepared them.

This communication is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to therein. No representation or warranty either expressed or implied, is made nor responsibility of any kind is accepted by LCL, its directors, officers, employees or agents either as to the accuracy or completeness of any information contained in this communication nor should it be relied on as such.

This communication is provided with the understanding that LCL is not acting in a fiduciary capacity and it is not a personal recommendation to you.

The investments discussed in this communication may not be eligible for sale in some states or countries and may not be suitable for all investors.

Investors should make their own investment decisions based upon their own financial objectives and financial resources and, if in any doubt, should seek advice from an investment advisor.

Past performance is not necessarily a guide to future performance. The stated price of any securities mentioned herein will generally be as at the end of the business day immediately prior to the publication date on this communication unless otherwise stated and is not a representative that any transaction can be effected at this price.

This communication is confidential and may not be re-distributed, retransmitted or disclosed, in whole or in part, or in any manner, without the express written consent of LCL.

For more information on models, please contact the Analyst.

**In the United Kingdom**

This communication is for the use of (a) Professional Clients and Eligible Counterparties (such terms as defined by the rules of the FCA) of LCL and (b) other persons who are not clients of LCL who have expressed interest in receiving it and who are investment professionals (persons having professional experience in matters relating to investments, as defined in Article 19(5) or Article 49(2)(a) to (d) (high net worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (as amended) and any other persons to whom this communication for the purposes of sections 21 of the Financial Services and Markets Act 2000 can otherwise lawfully be communicated).

For the purpose of clarity, this communication is not intended for and should not be relied upon by Retail Clients (as defined by the rules of the Financial Conduct Authority).

The content includes data provided by FTSE International Limited ("FTSE") © FTSE 2013. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE under licence. All rights in the FTSE indices and / or FTSE ratings vest in FTSE and / or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and / or FTSE ratings or underlying data. No further distribution of FTSE data is permitted without FTSE's express written consent.

**For EU investors**

This communication is being distributed to and is directed only at persons in member states of the European Economic Area ("EEA") who are "qualified investors" within the meaning of article 2(1)(e) of the prospectus directive (directive 2003/71/EC and any amendments thereto (including directive 2010/73/EU to the extent implemented in the relevant EEA member state) and any relevant implementing measures in each relevant EEA member state) ("qualified investors"). Any person in the EEA who receives this communication will be deemed to have represented and agreed that it is a qualified investor. Any such recipient will also be deemed to have represented and agreed that it has not received this communication on behalf of persons in the EEA other than qualified investors or persons in the United Kingdom and other member states (where equivalent legislation exists) for whom the investor has authority to make decisions on a wholly discretionary basis. LCL and its affiliates, will rely upon the truth and accuracy of the foregoing representations and agreements. Any person in the EEA who is not a qualified investor should not act or rely on this communication or any of its contents.

**For US Investors**

Analyst Certification: The analyst(s) who prepared this report hereby certifies that all of the views expressed in this report accurately reflect his / her personal views about the subject securities or issuers. No part of his/her compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this report.

The analyst(s) responsible for preparing research report received compensation that is based upon various factors, including total revenues of Liberum Inc. and its affiliates, a portion of which are or have been generated by investment banking activities of Liberum Inc. and its affiliates. LCL may make a market in the securities of the issuer and may act as principal with regard to sales and purchases of this security.

Any U.S. recipient of this report that is not a registered brokerdealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with Liberum Inc.

**For Canadian Investors**

This information is not, and under no circumstances is to be construed as, an advertisement or a public offering of the securities described herein in Canada or any province or territory thereof. Under no circumstances is this information to be construed as an offer to sell securities or as a solicitation of an offer to buy securities in any jurisdiction of Canada. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the registration requirement in the relevant province or territory of Canada in which such offer or sale is made. This information is not, and under no circumstances is it to be construed as, a prospectus, an offering memorandum, an advertisement or a public offering of any securities in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon these materials, the information contained herein or the merits of the securities described herein and any representation to the contrary is an offence. If you are located in Canada, this information has been made available to you based on your representation that you are an "accredited investor" as such term is defined in National Instrument 45-106 Prospectus Exemptions and a "permitted client" as such term is defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Under no circumstances is the information contained herein to be construed as investment advice in any province or territory of Canada nor should it be construed as being tailored to the needs of the recipient. Canadian recipients are advised that Liberum Capital Inc., its affiliates and its authorized agents are not responsible for, nor do they accept, any liability whatsoever for any direct or consequential loss arising from any use of this research report or the information contained herein.

**For Swiss Investors**

This publication is intended to be distributed to professional investors in circumstances such that there is no public offer. This publication does not constitute a prospectus within the meaning of Articles 652a and 1156 of the Swiss Code of Obligations.

**Other countries**

Laws and regulations of other countries may also restrict the distribution of this report. Persons in possession of this communication should inform themselves about possible legal restrictions and observe accordingly.

**Disclosures**

Please refer to www.liberum.com/legal for regulatory disclosures.

LIBERUM

## Research

### Alternatives

**Alternative Funds**

**Conor Finn**
+44 (0)20 3100 2257
conor.finn@liberum.com

**Myrto Charamis**
+44 (0)20 3100 2266
myrto.charamis@liberum.com

### Business Services, Building, Leisure & Travel

**Building Materials, Equipment Hire & Housebuilders**

**Charlie Campbell**
+44 (0)20 3100 2090
charlie.campbell@liberum.com

**Marcus Cole**
+44 (0)20 3100 2092
marcus.cole@liberum.com

**Support Services & Special Situations**

**Joe Brent**
+44 (0)20 3100 2272
joe.brent@liberum.com

**Sanjay Vidyarthi**
+44 (0)20 3100 2278
sanjay.vidyarthi@liberum.com

**James Allen**
+44 (0)20 3100 2088
james.allen@liberum.com

**Transport**

**Gerald Khoo**
+44 (0)20 3100 2195
gerald.khoo@liberum.com

**Leisure**

**Anna Barnfather**
+44 (0)20 3100 2176
anna.barnfather@liberum.com

**Andrew Wilkinson**
+44 (0)20 3100 2068
andrew.wilkinson@liberum.com

### Consumer

**Consumer Discretionary**

**Adam Tomlinson**
+44 (0)20 3100 2174
adam.tomlinson@liberum.com

**Tom Musson**
+44 (0)20 3100 2067
tom.musson@liberum.com

**Consumer Goods**

**Robert Waldschmidt**
+44 (0)20 3100 2085
robert.waldschmidt@liberum.com

**Anubhav Malhotra**
+44 (0)20 3100 2197
anubhav.malhotra@liberum.com

**Nico von Stackelberg**
+44 (0) 20 3100 2074
nico.vonstackelberg@liberum.com

**Roving**

**Wayne Brown**
+44 (0) 20 3100 2082
wayne.brown@liberum.com

### Financials

**Financial Services**

**Ben Williams**
+44 (0)20 3100 2274
ben.williams@liberum.com

**Jamie Donald**
+44 (0)20 3100 2164
jamie.donald@liberum.com

**Rahim Karim**
+44 (0)20 3100 2271
rahim.karim@liberum.com

### Healthcare

**Graham Doyle**
+44 (0)20 3100 2095
graham.doyle@liberum.com

**Alistair Campbell**
+44 (0)20 3100 2096
alistair.campbell@liberum.com

### Industrials

**Capital Goods**

**Daniel Cunliffe**
+44 (0)20 3100 2086
daniel.cunliffe@liberum.com

**Ryan Gregory**
+44 (0)20 3100 2071
ryan.gregory@liberum.com

**Christian Hinderaker**
+44 (0)20 3100 2275
christian.hinderaker@liberum.com

### Real Estate

**David Brockton**
+44 (0)20 3100 2243
david.brockton@liberum.com

**James Ashley**
+44 (0)20 3100 2167
james.ashley@liberum.com

### Resources

**Agriculture & Nutrition**

**Sophie Jourdier**
+44 (0)20 3100 2072
sophie.jourdier@liberum.com

**Mining**

**Richard Knights**
+44 (0)20 3100 2087
richard.knights@liberum.com

**Ben Davis**
+44 (0)20 3100 2083
ben.davis@liberum.com

**Speciality Chemicals & New Energy**

**Adam Collins**
+44 (0)20 3100 2075
adam.collins@liberum.com

**Gustav Lindahl**
+44 (0)20 3100 2192
gustav.lindahl@liberum.com

### Technology, Media & Telecommunications

**Media**

**Ian Whittaker**
+44 (0)20 3100 2089
ian.whittaker@liberum.com

**Harry Read**
+44 (0)20 3100 2093
harry.read@liberum.com

**SMID Technology & Services**

**Andrew Bryant**
+44 (0)20 3100 2277
andrew.bryant@liberum.com

**Technology**

**Janardan Menon**
+44 (0)20 3100 2076
janardan.menon@liberum.com

**Alexandre Schmidt**
+44 (0)20 3100 2268
alexandre.schmidt@liberum.com

### Strategy & Stock Selection

**Andrew Coury**
+44 (0)20 3100 2091
andrew.coury@liberum.com

**Mark James**
+44 (0)20 3100 2084
mark.james@liberum.com

## Convertibles

**Simon Smith**
+44 (0)20 3100 2171
simon.smith@liberum.com

**Richard Tomblin**
+44 (0)20 3100 2172
richard.tomblin@liberum.com

## Equity Sales – London

**UK & Pan European Mid/Large Cap**

**Richard Mawer (Head of Sales)**
+44 (0)20 3100 2114
richard.mawer@liberum.com

**Edward Blair**
+44 (0)20 3100 2117
edward.blair@liberum.com

**Bede Bruce-Lockhart**
+44 (0)20 3100 2112
bede.bruce-lockhart@liberum.com

**Tim Mayo**
+44 (0) 20 3100 2127
tim.mayo@liberum.com

**David Parsons (Head of Equities)**
+44 (0)20 3100 2125
david.parsons@liberum.com

**Nicholas Lee**
+44 (0)20 3100 2129
nicholas.lee@liberum.com

**UK Small & Mid Cap**

**Julian Collett**
+44 (0)20 3100 2113
julian.collett@liberum.com

**Oliver Baxendale**
+44 (0)20 3100 2193
oliver.baxendale@liberum.com

**Gerard O'Doherty**
+44 (0)20 3100 2097
gerard.odoherty@liberum.com

**Lisa Tugwell**
+44 (0)20 3100 2249
lisa.tugwell@liberum.com

**Alistair Smallwood**
+44 (0)20 3100 2124
alistair.smallwood@liberum.com

**Sebastian Fernandez**
+44 (0)20 3100 2242
sebastian.fernandez@liberum.com

## Specialist Sales

**Diversified Financials**

**Steve Keeling**
+44 (0)20 3100 2120
steve.keeling@liberum.com

**Real Estate**

**John Mozley**
+44 (0)20 3100 2115
john.mozley@liberum.com

**Consumer & Leisure**

**Lucy Sharma**
+44 (0)20 3100 2236
lucy.sharma@liberum.com

**Alternative Funds**

**Anastasia Mikhailova**
+44 (0) 20 3100 2259
anastasia.mikhailova@liberum.com

**Andrew Davies**
+44 (0) 20 3100 2269
andrew.davies@liberum.com

**Jack Kershaw**
+44 (0) 20 3100 2253
jack.kershaw @liberum.com

## Equity Sales – New York

**Mark Godridge**
+1 212 596 4823
mark.godridge@liberum.com

**Julian Plant**
+1 212 596 4824
julian.plant@liberum.com

**Peter Penha**
+1 212 596 4808
peter.penha@liberum.com

**Sarah Port**
+1 212 596 4818
sarah.port@liberum.com

**John Churchill**
+1 212 596 4807
john.churchill@liberum.com

## Sales Trading

**Graham Smith (Head of Execution)**
+44 (0)20 3100 2101
graham.smith@liberum.com

**Dominic Lowres (Head of Execution Strategy)**
+44 (0)20 3100 2103
dominic.lowres@liberum.com

**Nina Dixon**
+44 (0)20 3100 2109
nina.dixon@liberum.com

**Nick Worthington**
+44 (0)20 3100 2106
nick.worthington@liberum.com

**David Thompson**
+44 (0)20 3100 2062
david.thompson@liberum.com

**Stephen Jury**
+44 (0)20 3100 2107
stephen.jury@liberum.com

**Scott Leslie**
+1 212 596 4813
scott.leslie@liberum.com

**Mark O'Hara (Head of Sales Trading)**
+44 (0)20 3100 2061
mark.o'hara@liberum.com

**Scott Briant**
+44 (0)20 3100 2118
scott.briant@liberum.com

**William Wood**
+44 (0)20 3100 2119
william.wood@liberum.com

## Trading

**Giles Johnston (Head of Trading)**
+44 (0)20 3100 2203
giles.johnston@liberum.com

**Simon Warrener**
+44 (0)20 3100 2108
simon.warrener@liberum.com

## Market Making

**STX 77440**
+44 (0)20 3100 2200